

Message Text

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ORIGIN EB-11

INFO OCT-01 AF-10 ARA-16 EA-11 NEA-10 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-20

ACDA-19 IO-15 SCEM-02 INT-08 COME-00 TRSE-00 EUR-25

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DRAFTED BY EB/ORF/FSE;WBWHITMAN:CJR

APPROVED BY EB/ORF/FSE - MR. KATZ

NEA - MR. ATHERTON

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FM SECSTATE WASHDC

TO ALL OECD CAPITALS IMMEDIATE

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY TUNIS

AMEMBASSY ABU DHABI

AMEMBASSY LAGOS

AMEMBASSY JAKARTA

AMEMBASSY CARACAS

AMEMBASSY QUITO

AMEMBASSY TEL AVIV

USINT ALGIERS

USINT CAIRO

C O N F I D E N T I A L STATE 203180

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: VIENNA OIL PRICE NEGOTIATIONS

REF: STATE 202315

OECD PASS BENNSKY

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1. DEPARTMENT NOTIFIED BY EXXON THAT PIERCY AND BENARD MET EARLY ON MORNING OCTOBER 12 WITH YAMANI IN VIENNA. PIERCY UNDERLINED ENORMITY OF CONSEQUENCES TO CONSUMERS AND WORLD ECONOMY OF LARGE INCREASES IN POSTED PRICE, UNPREDICTABILITY OF OPEC'S INFLEXIBLE FORMULA FOR FUTURE RISES, AND OPEN-ENDED NATURE OF PRODUCER DEMANDS FOR PRICE ADJUSTMENTS BASED ON SULPHUR CONTENT. COMPANIES THEREFORE CANNOT MAKE FURTHER FINANCIAL-PRICE OFFERS AT THIS TIME WITHOUT CONSULTING FURTHER WITH AND OBTAINING SUPPORT OF CONSUMER COUNTRIES. PIERCY STRESSED THAT ALTHOUGH THEY CANNOT ACT ALONE AT THIS MOMENT, THERE IS A DESIRE BY THE COMPANIES TO WORK OUT SOME MUTUALLY ACCEPTABLE SOLUTION THROUGH FURTHER NEGOTIATION. THEY THEREFORE REQUEST A TWO WEEK RECESS DURING WHICH PERIOD CONSULTATIONS WITH CONSUMER GOVERNMENTS COULD BE HELD. THE COMPANIES COULD THEN RETURN TO THE BARGAINING ABLE WITH AN "ENHANCED OFFER." DURING THIS INTERVAL, COMPANIES WOULD ALSO MEET WITH ABU DHABI OFFICIALS TO DISCUSS THEIR CLAIM OF UNDERPOSTING. COULD YAMANI SUPPORT THIS IDEA AND OBTAIN

CONCURRENCE FOR IT FROM THE OTHER PRODUCERS?

2. YAMANI FIRST STATED THAT HE HAD TO LEAVE IMMEDIATELY FOR RIYADH, BUT WOULD PASS ON THE COMPANIES' REQUEST FOR RECESS. ALTHOUGH HE THINKS THAT CHANCES FOR ACCEPTANCE OF A TWO WEEK RECESS ARE LESS THAN 50-50, YAMANI WAS CONFIDENT THAT A ONE WEEK RECESS COULD BE ARRANGED. A COMPROMISE TEN DAY RECESS WAS EXPLORED BUT DISCARDED BECAUSE THE EID HOLIDAY WOULD EXTEND THE INTERVAL BETWEEN MEETINGS TO TWO WEEKS ANYWAY. YAMANI STATED THAT A MINISTERIAL MEETING WOULD BE NEEDED TO DECIDE ON THE RECESS PROPOSAL, BUT DID NOT DURING THIS MEETING GIVE ANY CLEAR INDICATION WHEN A DECISION MIGHT BE FORTHCOMING. ACCORDING TO PIERCY'S REPORT, KUWAITI REPRESENTATIVE PRESENT AT MEETING WAS "RELAXED" ABOUT RECESS PROPOSAL, BUT IRAQIS WERE "IRATE", SUSPECTING ULTERIOR MOTIVES ON PART OF COMPANIES. DESPITE IRAQI REACTION PIERCY DESCRIBED OVERALL TONE OF MEETING AS "FRIENDLY".
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3. DURING TELEPHONE CALL FOLLOWING THIS MEETING, YAMANI ASKED PIERCY WHETHER, IF THE PRODUCERS ACCEPT A TWO WEEK RECESS, THE COMPANIES WOULD ACCEPT AN OCTOBER 1 EFFECTIVE DATE FOR ANY AGREEMENT REACHED. PIERCY EXPLAINED TO YAMANI THAT HE WAS NOT EMPOWERED TO COMMIT THE INDUSTRY TO ANY SUCH RETROACTIVE PROPOSAL. DURING THE PHONE CONVERSATION, PIERCY ASKED WHEN A DECISION MIGHT BE FORTHCOMING TO

WHICH YAMANI REPLIED "YOU WILL BE HEARING IN A FEW DAYS OVER THE RADIO".

4. COMPANY NEGOTIATORS ALL PLAN TO DEPART VIENNA OCTOBER 12, WITH SMALL INDUSTRY GROUP SCHEDULED TO GO TO LONDON TO DISCUSS MAKING CONTACT WITH WEST EUROPEAN AND JAPANESE GOVERNMENTS. PIERCY HIMSELF WILL BE RETURNING TO UNDERTAKE CONTACTS WITH THE U.S. AND CANADIAN GOVERNMENTS. SIMULTANEOUSLY, A LONDON STUDY GROUP WILL TAKE UP THE TECHNICAL AND FINANCIAL QUESTIONS OF SULPHUR DIFFERENTIALS, THE RELATIONSHIP OF POSTED PRICES TO FUTURE PRICE INCREASES, AND DETERMINING A MEANINGFUL, FAIR, AND ACCURATE WORLD MARKET PRICE FOR OIL.

5. ACTION ADDRESSEES MAY WISH TO DRAW ON FOREGOING IN DISCUSSING OIL PRICE NEGOTIATIONS WITH HOST GOVERNMENTS ON CONFIDENTIAL BASIS. KISSINGER

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